Report

of the

Examination of

Wisconsin American Mutual Insurance Company

Fond du Lac, Wisconsin

As of December 31, 2002

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, *Governor*
Jorge Gomez, *Commissioner*

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February 13, 2004

Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

WISCONSIN AMERICAN MUTUAL INSURANCE COMPANY
FOND DU LAC, WISCONSIN

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Wisconsin American Mutual Insurance Company (hereinafter also “the company” or “WAMIC”) was conducted in 2000 as of December 31, 1999. The current examination covered the intervening period ending December 31, 2002, and included a review of such 2003 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Growth of Company
Reinsurance
Financial Statements
Accounts and Records

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comments on the remaining areas of the company's operations are contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance (OCI). They reviewed the adequacy of the company's loss reserves and loss adjustment expense reserves. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1898 as Wisconsin Farmers Mutual Hail & Cyclone Insurance Company of Juneau, Wisconsin. On December 23, 1953, the company changed its name to Wisconsin Farmers Mutual Insurance Company. The company converted from an assessable mutual to a nonassessable mutual as of July 1, 1969. On March 9, 1993, the company's name was changed to Wisconsin American Mutual Insurance Company. The company moved its home office to Fond du Lac, Wisconsin in November 1994.

Wisconsin American Mutual Insurance Company is currently licensed only in the State of Wisconsin.

The major products marketed by the company as of the examination date include commercial multiple peril, private passenger auto liability, auto physical damage, workers' compensation, and farmowners multiple peril. Commercial business, which is primarily in small to medium sized restaurants and taverns, represents the company's current target market. The company has reduced its personal lines exposure in recent years. The company also recently announced plans to discontinue offering workers' compensation coverage going forward into 2004, due primarily to high reinsurance costs. The major products are marketed by approximately 600 agents through some 70 agencies.

The following table is a summary of the net insurance premiums written by the company in 2002. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 99,285	$	$ 49,312	$ 49,973
Allied lines	37,833		17,407	20,426
Farmowners multiple peril	1,030,713		536,501	494,212
Homeowners multiple peril	839,854		437,532	402,322
Commercial multiple peril	3,582,019		1,840,262	1,741,757
Inland marine	139,897		73,454	66,443
Workers' compensation	3,008,086		1,617,911	1,390,175
Other liability - occurrence	324,407		270,822	53,585
Private passenger auto liability	3,350,958		1,475,345	1,875,613
Commercial auto liability	431,040		190,603	240,437
Auto physical damage	3,290,234	0	294,208	2,996,026
Total All Lines	$16,134,326	$0	$6,803,357	$9,330,969

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 10 members. Three or four directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive $2,445 per year for serving on the board plus $200 for each meeting attended. Board members are reimbursed $.36 per mile for travel to board meetings.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Diane J. Burk Markesan, Wisconsin	Assistant Treasurer - WAMIC	2004
James R. Goudy Fond du Lac, Wisconsin	Real Estate Broker	2004
Raymond J. Ritger Mountain, Wisconsin	Retired Farming & Storage Business	2004
James C. Herrick Fond du Lac, Wisconsin	Attorney and President - WAMIC	2005
John W. Herrick Fond du Lac, Wisconsin	Attorney and Treasurer - WAMIC*	2005
William R Peck III Green Bay, Wisconsin	Executive Vice President - WAMIC* Adjustor	2005
Elmer C. Sosinski Fond du Lac, Wisconsin	Retired Auto Dealership Owner	2005
William R. McIntosh Fond du Lac, Wisconsin	Owner of Title and Abstract Co.	2006
Charles E. Sosinski Fond du Lac, Wisconsin	Detective, Fond du Lac Sheriffs Dept.	2006
August F. Staehling Fond du Lac, Wisconsin	Secretary - WAMIC*	2006

* - Work related to these positions is performed on a part-time basis

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2003 Compensation
James C. Herrick	President	$150,000
William R. Peck III	Executive Vice President *	8,000
John W. Herrick	Treasurer *	6,600
August F. Staehling	Secretary *	11,000
Gene C. Schultz	Senior Vice President – Assistant Secretary	60,000
Diane J. Burk	Senior Vice President – Assistant Treasurer	60,500
Thomas L. Kulke	Senior Vice President – Farm Underwriting	60,000
Linda L. Gustrowsky	Vice President – Personal Line Underwriting	56,495
Richard J. Haertel	Vice President – Commercial Underwriting	63,202

*Designates officers who spend approximately 20% of time on company affairs

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
James C. Herrick, Chairman*
William R. Peck III*
Gene C. Schultz
August F. Staehling*

Loss Adjusting Expense Committee
Gene C. Schultz, Chairman
Charles E. Sosinski*
August F. Staehling*

*Designates committee members who are also members of the board of directors

IV. AFFILIATED COMPANIES

Wisconsin American Mutual Insurance Company is a single entity organized as a mutual insurance company and is not a member of a holding company system.

V. REINSURANCE

The company's reinsurance portfolio and strategy, including major reinsurance treaties in force at the time of the examination, are described below. The reinsurance contracts contained proper insolvency provisions. All treaties are nonaffiliated ceding contracts.

1. Type: Multi Line Excess of Loss

Reinsurer:	Dorinco Reinsurance (20%) Hartford Re Company for Hartford Fire (45%) Odyssey America Reinsurance (35%)	
Scope:	Coverage A =	All Property (except auto damage and tornado)
	Coverage B =	All Casualty (except umbrella liability and occupational disease & cumulative trauma under workers' compensation)
	Coverage C =	Casualty related to occupational disease and cumulative trauma under workers' compensation
	Coverage D =	Any one occurrence involving one or more classes of Property and Casualty coverage (except occupational disease & cumulative trauma)
Retention:	Coverage A, B, D* =	$75,000 for all property or casualty losses *maximum retention of $75,000 is prorated to applicable coverages
	Coverage C =	$125,000
Coverage:	<u>Layer 1</u>	
	Coverage A =	$125,000 excess of $75,000 each risk, subject to an occurrence limit of $375,000
	Coverage B =	$125,000 excess of $75,000 each occurrence
	Coverage C =	$75,000 excess of $125,000 each occurrence
	Coverage D =	$75,000 excess of $75,000 each occurrence
	<u>Layer 2</u>	
	Coverage A =	$800,000 excess of $200,000 each risk, subject to an occurrence limit of $1,600,000
	Coverage B =	$800,000 excess of $200,000 each occurrence
	Coverage C =	$800,000 excess of $200,000 each occurrence
	Coverage D =	N/A
	<u>Layer 3</u>	
	Coverage A =	$1,500,000 excess of $1,000,000 each risk subject to an occurrence limit of $3,000,000
	Coverage B =	$1,000,000 excess of $1,000,000 each occurrence
	Coverage C =	$1,000,000 excess of $1,000,000 each occurrence
	Coverage D =	N/A

Premium:	<u>Layer 1</u> Annual Deposit Premium of $1,719,714 payable in 4 equal quarterly installments of $429,928.50 to be adjusted at year-end at 20.75% of gross net premium written less ceding commission, subject to a minimum premium of $1,612,286 <u>Layer 2</u> Annual Deposit Premium of $1,181,000 payable in 4 equal quarterly installments of $295,250 to be adjusted at year-end at 14.25% of gross net premium written less ceding commission, subject to a minimum premium of $1,107,143 <u>Layer 3</u> Annual Deposit Premium of $207,142 payable in 4 equal quarterly installments of $51,785.50 to be adjusted at year-end at 2.50% of gross net premium written less ceding commission, subject to a minimum premium of $194,286
Commissions:	30% of subject reinsurance premium
Effective Date:	January 1, 2003
Termination:	Any January 1, by either party giving at least 90 days prior notice. Reinsurer may terminate at any time by giving 90 days notice if: (a) Company has been assigned an AM Best rating less than B- (b) J. Herrick ceases to be actively involved in company activities

2. Type: Commercial and Personal Umbrella Liability Quota Share

Reinsurer:	Dorinco Reinsurance (20%) Hartford Re Company for Hartford Fire (45%) Odyssey America (35%)
Scope:	All Commercial and Personal Umbrella Liability coverage written
Retention:	5%, subject to a maximum of $100,000
Coverage:	95% of $2,000,000 any one occurrence, subject to an annual aggregate limit of $4,000,000
Premium:	Pro rated ceded net written premium less ceding commission payable in monthly deposits subject to no minimum premium
Commissions:	25% of subject reinsurance premium
Effective date:	January 1, 2003
Termination:	Any January 1, by either party giving at least 90 days notice Reinsurer may terminate at any time by giving 90 days notice if: (a) Company has been assigned an AM Best rating less than B- (b) J. Herrick ceases to be actively involved in company activities

3. Type: Workers Compensation Carve Out Excess of Loss

Reinsurer:

Hartford Fire:	Layer 1 = 0%	Layer 2 = 40%
Wellington:	Layer 1 = 37.5%	Layer 2 = 16%
Lloyds Syndicate:	Layer 1 = 62.5%	Layer 2 = 44%

Scope: Workers' Compensation

Retention:

Layer 1
$2,000,000, which flows through the Multi Line Excess of Loss Contract, providing coverage up to Layer 1 with a retention of $75,000

Layer 2
$5,000,000

Coverage:

Layer 1
$3,000,000 excess of $2,000,000 each occurrence, subject to a layer term aggregate limit of $6,000,000

Layer 2
$5,000,000 excess of $5,000,000 each occurrence, subject to a layer term aggregate limit of $10,000,000

Premium:

Layer 1
10.71% of net earned premium, subject to minimum and deposit premium of $150,000 payable in quarterly installments of $37,500

Layer 2
8.93% of net earned premium, subject to minimum and deposit premium of $125,000 payable in quarterly installments of $31,250

Effective date: January 1, 2003

Termination: January 1, 2004

4. Type: Property Catastrophe Excess of Loss

Reinsurer:

	Layer 1	Layer 2	Layer 3
Farm Bureau of Mich.	3%	3%	2%
Liberty Mutual	10%	10%	7%
Odyssey America	20%	15%	15%
Partner Reinsurance	40%	40%	39%
PXRE Reinsurance	12.5%	12%	12%
Renaissance Reins.	14.5%	20%	25%

Scope: All property business written by the company

Retention:

Layer 1 = $500,000 plus 5% of the next $500,000

Layer 2 = $1,000,000 plus 5% of next $1,000,000

Layer 3 = $2,000,000 plus 5% of next $3,500,000

Coverage:	<u>Layer 1</u> 95% of $500,000 excess of $500,000 any one loss occurrence, subject to an annual limit of $1,000,000 <u>Layer 2</u> 95% of $1,000,000 excess of $1,000,000 any one loss occurrence, subject to an annual limit of $2,000,000 <u>Layer 3</u> 95% of $3,500,000 excess of $2,000,000 any one loss occurrence, subject to an annual limit of $7,000,000
Premium:	<u>Layer 1</u> 3.2% of net earned premium, subject to a minimum premium of $111,000 and deposit premium of $131,000 payable in two equal installments of $65,500 on January 1 and July 1, 2003 <u>Layer 2</u> 3.5% of net earned premium, subject to a minimum premium of $122,000 and deposit premium of $143,000 payable in two equal installments of $71,500 on January 1 and July 1, 2003 <u>Layer 3</u> 4.56% net earned premium, subject to a minimum premium of $158,000 and a deposit premium of $186,000 payable in two equal installments of $93,000 on January 1 and July 1, 2003
Effective Date:	January 1, 2003
Termination:	January 1, 2004

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2002, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Wisconsin American Mutual Insurance Company
Assets
As of December 31, 2002

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 4,350,163	$	$ 4,350,163
Stocks:			
Common stocks	669,075		669,075
Real estate:			
Occupied by the company	850,124		850,124
Properties held for sale	168,100		168,100
Cash	1,437,116		1,437,116
Short-term investments	1,498,733		1,498,733
Agents' balances or uncollected premiums:			
Premiums and agents' balances in course of collection	1,728,412	27,519	1,700,893
Reinsurance recoverable on loss and loss adjustment expense payments	390,157		390,157
Federal and foreign income tax recoverable and interest thereon	633,476	307,738	325,738
Electronic data processing equipment and software	44,469		44,469
Interest, dividends, and real estate income due and accrued	66,937		66,937
Other assets nonadmitted:			
Furniture, equipment, and supplies	17,967	17,967	
Write-ins for other than invested assets:			
Cash surrender value-key man policy	139,133		139,133
Prepaid expenses	1,827	1,827	
Miscellaneous Accounts Receivable	35,000		35,000
Notes Receivable	705,670		705,670
Total Assets	$12,736,359	$355,051	$12,381,308

Wisconsin American Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2002

Losses		$ 3,409,646
Loss adjustment expenses		836,459
Commissions payable, contingent commissions, and other similar charges		279,979
Other expenses (excluding taxes, licenses, and fees)		103,606
Taxes, licenses, and fees (excluding federal and foreign income taxes)		64,933
Borrowed money and interest thereon		26,134
Unearned premiums		2,636,028
Advance premium		247,295
Dividends declared and unpaid:		
Policyholders		66,299
Ceded reinsurance premiums payable (net of ceding commissions)		443,322
Remittances and items not allocated		15,083
Write-ins for liabilities:		
Escheatable property		56,530
Miscellaneous liabilities		14,122
Total Liabilities		$ 8,199,436
Surplus notes	$1,200,000	
Gross paid in and contributed surplus	705,670	
Unassigned funds (surplus)	2,276,202	
Surplus as Regards Policyholders		4,181,872
Total Liabilities and Surplus		$12,381,308

Wisconsin American Mutual Insurance Company
Summary of Operations
For the Year 2002

Underwriting Income		
Premiums earned		$ 9,396,354
Deductions:		
Losses incurred	$7,058,884	
Loss expenses incurred	1,355,233	
Other underwriting expenses incurred	2,801,317	
Total underwriting deductions		11,215,434
Net underwriting gain or (loss)		(1,819,080)
Investment Income		
Net investment income earned	374,138	
Net realized capital gains	232,666	
Net investment gain		606,804
Other Income		
Net gain or (loss) from agents' or premium balances charged off	(27,584)	
Finance and service charges not included in premiums	34,668	
Write-ins for miscellaneous income:		
Cash value – key man policy	4,218	
Gain on sale of other assets	25	
Miscellaneous income	20,908	
Total other income		32,235
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		(1,180,041)
Dividends to policyholders		411,766
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(1,591,807)
Federal and foreign income taxes incurred		(104,550)
Net Income (Loss)		$(1,487,257)

Wisconsin American Mutual Insurance Company
Cash Flow
For the Year 2002

Premiums collected net of reinsurance			$9,275,424
Deduct:			
Loss and loss adjustment expenses paid (net of salvage or subrogation)			8,233,676
Underwriting expenses paid			2,894,942
Cash from underwriting			(1,853,194)
Net investment income			440,991
Other income (expenses):			
Agents' balances charged off		$(27,584)	
Write-ins for miscellaneous items:			
Miscellaneous income		25,151	
Finance and service charges		34,668	
Total other income			32,235
Deduct:			
Dividends to policyholders paid			402,584
Federal income taxes paid (recovered)			(117,250)
Net cash from operations			(1,665,302)
Proceeds from investments sold, matured, or repaid:			
Bonds	$2,413,694		
Stocks	1,626,375		
Real estate	655,410		
Miscellaneous proceeds	24,995		
Total investment proceeds		4,720,474	
Cost of investments acquired (long-term only):			
Bonds	1,263,015		
Stocks	2,092,366		
Real estate	53,794		
Total investments acquired		3,409,175	
Net cash from investments			1,311,299
Cash provided from financing and miscellaneous sources:			
Surplus notes, capital and surplus paid in	605,670		
Other cash provided	61,914		
Total		667,584	
Cash applied for financing and miscellaneous uses:			
Other applications	1,130,237		
Total		1,130,237	

Net cash from financing and miscellaneous sources	(462,653)
Reconciliation	
Net change in cash and short-term investments	(816,656)
Cash and short-term investments, December 31, 2001	3,752,505
Cash and short-term investments, December 31, 2002	$2,935,849

Wisconsin American Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2002

Assets		$12,381,308
Less liabilities		8,199,436
Adjusted surplus		4,181,872
Annual premium:		
Lines other than accident and health	$9,330,969	
Dividends to policyholders	(411,766)	
Net	8,919,203	
Factor	20%	
Compulsory surplus		1,783,841
Compulsory surplus excess		$ 2,398,031
Adjusted surplus (from above)		$ 4,181,872
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		2,497,377
Security surplus excess		$ 1,684,495

Wisconsin American Mutual Insurance Company
Reconciliation and Analysis of Surplus
For the Three-Year Period Ending December 31, 2002

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2002	2001	2000
Surplus, beginning of year	$5,112,093	$5,104,275	$5,262,901
Net income	(1,487,257)	(677,234)	120,138
Net unrealized capital gains or (losses)	(25,103)	400,093	(219,648)
Change in net deferred income tax	75,071	208,404	
Change in non-admitted assets	(98,602)	(173,445)	3,151
Change in surplus notes	(100,000)	(100,000)	(100,000)
Cumulative effect of changes in accounting principles		350,000	
Surplus adjustments:			
Paid in	705,670		
Write-ins for gains and (losses) in surplus:			37,733
Surplus, end of year	$4,181,872	$5,112,093	$5,104,275

Wisconsin American Mutual Insurance Company
Insurance Regulatory Information System
For the Three-Year Period Ending December 31, 2002

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2002	2001	2000
#1	Gross Premium to Surplus	386%	416%	460%
#2	Net Premium to Surplus	223	238	225
#3	Change in Net Writings	-23	6	-23
#4	Surplus Aid to Surplus	10	10	17*
#5	Two-Year Overall Operating Ratio	117*	107*	97
#6	Investment Yield	3.8*	4.5*	4.8
#7	Change in Surplus	-16*	4	-7
#8	Liabilities to Liquid Assets	102	79	83
#9	Agents' Balances to Surplus	41*	29	15
#10	One-Year Reserve Devel. to Surplus	20*	12	12
#11	Two-Year Reserve Devel. to Surplus	37*	23*	25*
#12	Estimated Current Reserve Def. To Surplus	-4	12	10

The "Two-Year Overall Operating Ratio" measures the company's profitability over the previous two-year period. WAMIC's ratio exceeds 100% in two of the three years under examination. The relatively high ratio of 117% in 2002 reflects weaker operating results associated with underwriting and net loss trends, surplus adjustments for loss reserve deficiencies and lower investment yields.

The "Investment Yield Ratio" provides information on the earnings of the company's investment portfolio compared to a long-term industry average. WAMIC's investment yields reflect lower than average returns associated with the general declining interest rate environment.

The "Change in Surplus Ratio" reflects the deterioration in the company's overall financial condition related to the significant increase in net loss of $1.5 million reported in 2002.

The "Surplus Aid to Surplus Ratio" reflects higher ceding commissions associated with the company's reinsurance program in 2000, which has not been an exception going forward.

The "Agents' Balances to Surplus Ratio" measures the degree to which the company's financial position depends upon premium receivable assets. The company's ratio increase in 2002 reflects the impact of the increase in agents' balances associated with the growth in annual commercial premiums as opposed to personal lines and the declining surplus trends.

The "One-Year and Two-Year Reserve Development to Surplus Ratios" provide a retrospective development of prior year loss reserve adequacy. WAMIC's ratios reflect the adverse reserve deficiency trends associated with increasing incurred loss ratios and various company appointed actuary and CPA recommendations to strengthen loss reserves.

Growth of Wisconsin American Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2002	$12,381,308	$8,199,436	4,181,872	$(1,487,257)
2001	13,315,472	8,203,379	5,112,093	(677,234)
2000	12,625,374	7,521,099	5,104,275	120,138
1999	14,059,075	8,796,174	5,262,901	233,917

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2002	$16,134,326	$9,330,969	$9,396,354	89.5%	29.7%	119.2%
2001	21,256,528	12,150,149	12,141,424	90.0	27.1	117.1
2000	23,460,417	11,483,351	12,101,882	81.6	21.6	103.2
1999	21,633,340	14,971,344	14,398,151	76.8	22.2	99.0

WAMIC's assets decreased by approximately $1.7 million or 12%, liabilities decreased by approximately $600,000 or 7% and surplus decreased by approximately $1.1 million or 21% since 1999. Net premiums written decreased by approximately $5.6 million or 38%. Net income has decreased from a gain of approximately $234,000 to a loss of $1.5 million. The combined ratio has increased from 99% to 119% during the examination period.

The decrease in admitted assets reflects a general investment portfolio reduction in bonds and stocks to meet cash flow needs. A change in asset mix was also noted reflecting the sale of various business park real estate parcels at a gain, which has aided in providing a source of additional capital. The decrease in premiums written reflects the company's business plan strategy to reduce personal business lines which have been unprofitable, along with the termination of unprofitable agency relationships and price increases to remain profitable.

Declining income and surplus along with increasing combined ratio trends reflect the impact of rising claim experience including prior year storm losses during 2000-2001, reserve deficiency adjustment recommendations by actuarial and CPA consultants and annual surplus note principal repayments.

Reconciliation of Surplus per Examination

The following schedule is a reconciliation of surplus as regards policyholders between that reported by the company and as determined by this examination:

	Increase	Decrease	
Surplus December 31, 2002, per filed statutory annual statement			$4,181,872
2002 CPA Audit Adjustments			
Loss Reserves	$	$ 500,000	
Guaranty Funds Assessment		95,165	
Policyholder Dividends Declared & Unpaid		135,463	
Accrued Employee Benefits - vacation	14,646		
Accrued Employee Benefits - post retirement	59,596		
Current Examination Adjustments			
Loss Reserves - adjustment for net difference between CPA and independent actuary estimates	407,000		
Loss Adjustment Expense Reserves - independent actuary estimate		305,000	
Salaries Payable		43,750	
Expenses for Accrued Real Estate Held for Sale		59,000	
Real Estate Properties Occupied Capitalization		17,000	
Net increase or (decrease)	$481,242	$1,155,378	$ (674,136)
Surplus December 31, 2002, per examination			$3,507,736

Examination Reclassifications

	Debit	Credit
Common Stock	$603,032	
Short-term Investments	3,113	
Cash		$606,145
Reinsurance Recoverables on Loss & LAE Payment	204,435	
Remittances & Items Not Allocated		204,435
Total reclassifications	$810,580	$810,580

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Cash Management—It is recommended that the company delegate certain duties to staff outside of the accounting department for enhancement of cash controls.

   Action—Compliance

2. Investments—It is recommended that the company amend its custodial agreement to include proper indemnification clauses that meet the requirements specified in the NAIC Examiners Handbook.

   Action—The company was not in complete compliance as of the examination date. Subsequent custodial agreement revisions during the course of the current examination incorporated the proper indemnification provisions. Further comments may be found in the Summary of Examination Results section of this report captioned “Invested Asset Custody”.

3. EDP Controls—It is recommended that the company establish a procedure to ensure that its computer room is secure at all times from unauthorized access. A procedure should also be established to periodically review access rights of employees.

   Action—Compliance

4. EDP Controls—It is recommended that the company execute an agreement with Strategic Data Systems which indicates the parties’ rights and responsibilities in the event there is an issue with the services being provided to the company.

   Action—The recommendation is no longer applicable. Strategic Data Systems is not an active company. The company does not have ongoing system modification projects assigned to SDS and does not anticipate working with them on any future system modifications. The company has a License Agreement with SDS dated July 30, 1992, regarding a non-exclusive, non-transferable and perpetual license to use the SDS Policy and Claims Administration System. WAMIC’s approach going forward is based on individual “Statement of Work” agreements on an individual contractor basis for specific project work which may be necessary.

Summary of Current Examination Results

Invested Asset Custody

The company's invested assets are held in the custody of either U. S. Bank or Bank One under an applicable custodial agreement. The Bank One custodial agreement, as of the December 31, 2002 examination date, did not contain the indemnification provisions required by the NAIC Financial Examiners Handbook. These provisions require the custodian to indemnify the insurance company for any loss of the insurance company's securities under custody occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction. The lack of this custodial agreement protective language was also noted in the prior examination.

Company follow-up during the course of the current examination subsequently resulted in the execution of a new custodial agreement with Bank One, effective December 17, 2003. The revised agreement contains the required indemnification provisions. Accordingly, no further current examination recommendation is required.

Money Market Account Classification

The company reported various money market fund account balances totaling approximately $606,145 under Schedule E – Part 1- Cash. The CPA Audit Report recommended that the company reclassify these money market accounts as common stock for annual statement reporting purposes.

Current examination review of Statement of Statutory Accounting Principle (SSAP) No. 2, paragraph 11 indicated that investments in money market funds shall be reported in accordance with the guidance in the NAIC Purposes and Procedures Manual of the Securities Valuation Office. The Securities Valuation Office guidance recommends money market fund classification as common stock with the exception of "exempt" funds, which are classified as short-term investments. It is recommended that the company classify and report money market funds under Schedule D – Part 2 –Section 2 Common Stock or Schedule DA – Part 1 Short-term Investments, in accordance with the guidance of the NAIC Purposes and Procedures Manual of the Securities Valuation Office.

Real Estate Held for Sale - Appraisals

The company's Annual Statement Schedule A – Part 1 reported dates of last appraisal of 1986 and 1996, which reflect the original purchase dates associated with various company business park real estate property held for sale. SSAP 40, paragraph 12 requires that appraisals to determine the fair value of real estate investments held for sale shall be no more than five years old. It is recommended that the company obtain appraisals on its real estate held for sale such that the appraisals are no more than five years old, in accordance with SSAP 40, paragraph 12 of the NAIC Accounting Practices and Procedures Manual.

Occupied Real Estate Properties - Capitalization

Schedule A reported real estate costs capitalized for permanent additions or improvements which included expenses associated with the appraisal of owner occupied properties in the amount of $17,000 during 2002. SSAP 40, paragraph 14 provides that only expenditures which add to or prolong the property life shall be added to the cost of real estate and depreciated. Appraisals primarily assist in providing a value on the property in the event of placing it on the market. Hence, appraisal related costs should be charged to expense as incurred.

Accordingly, the "Reconciliation of Surplus per Examination" section of the report reflects a surplus adjustment decrease of $17,000 for charges which should have been expensed rather than capitalized. It is recommended that the company ensure, in the future, only expenses which add to or prolong property life are capitalized, in accordance with SSAP No.40, paragraph 14 of the NAIC Accounting Practices and Procedures Manual.

Deferred Premiums

WAMIC currently reports all premiums and agents' balances of approximately $1.7 million as premium in course of collection. Premium testing indicated that installment billing was applicable for approximately 25% of the premium policy test sample. Company follow-up indicated that SDS premium system reporting limitations currently do not provide for identification of deferred premiums. It is recommended that the company develop a system methodology for reporting deferred premiums pursuant to the NAIC Annual Statement Instructions Property and Casualty or request a permitted practice.

Policyholder Dividends Declared and Unpaid

The CPA Audit Report recommended an accrual adjustment of $135,463 for workers compensation dividends. Current examination analysis of workers compensation dividend accruals and testing of related dividend payments validated that the December 31, 2002, accrual balances were understated by the above amount. The under accrual was apparently the result of an initial decision to pay dividends on a quarterly basis, which was subsequently reversed in January, 2003.

Accordingly, the “Reconciliation of Surplus per Examination” section of the current examination report reflects an adjustment decreasing surplus by $135,463. No further recommendation is being made, since the company has recently announced plans to exit the workers compensation market due to profitability concerns and reinsurance costs.

Reinsurance Contract Documentation

Reinsurance contract copies initially provided by the company during examination fieldwork were all unsigned. All reinsurance contracts, including Multi Line Excess of Loss, Commercial & Personal Umbrella Liability, Workers Compensation Excess of Loss, and Property Catastrophe Excess of Loss treaties were effective as of January 1, 2003. Company follow-up during and subsequent to the examination fieldwork secured signed copies through the company’s reinsurance broker for all reinsurers.

SSAP No.62, paragraph 23 requires that an agreement entered into, renewed or amended on or after January 1, 1994, should be finalized, reduced to a written form and signed by the parties within nine months after the commencement of the policy period covered by the reinsurance agreement. If the above contract execution requirements are not complied with, the arrangement is presumed to be retroactive and shall be accounted for as a retroactive reinsurance agreement.

It is recommended that the company establish procedures to ensure that signed, executed copies of reinsurance treaties are obtained from all reinsurers in a timely manner, in accordance with SSAP No. 62, paragraph 23 of the NAIC Accounting Practices and Procedures Manual.

Reinsurance Contract Restrictions

The company's major Multi-Line Excess of Loss and Commercial & Personal Umbrella reinsurance agreements in effect as of the examination fieldwork contained special termination provisions. These provisions allow for reinsurer termination at any time by giving 90 days written notice if:

- Company is assigned an AM Best rating below B-
- President, J. Herrick ceases to be actively involved in the company activities

The reinsurer remains bound by the terms of the reinsurance contract during the notice period set forth above. Reinsurance on business in force at the effective date of termination shall remain in full force and effect until expiration, cancellation or the next premium anniversary, whichever occurs first, but in no event beyond 12 months.

Given the company's overall financial status, the current AM Best rating of C++ as of the examination fieldwork and the company's dependency on its reinsurance program, these reinsurance contract termination provisions raise concerns regarding the potential for restricting ongoing reinsurance program coverage. It is recommended that the company make every effort to remove AM Best rating restriction termination provisions in subsequent contract renegotiations with its broker.

Reinsurance Recoverables - Classification

Examination review of company reinsurance recoverable reconciliation controls identified an outstanding overpayment balance of approximately $204,435. The company indicated that the above overpayment related to a recoverable received prior to claim payment. The company had originally assumed that the loss was settled and made a request for payment to the reinsurer prior to receiving a signed release. The claim was not settled and adjusted until January, 2003, resulting in an understatement of reinsurance recoverable balances as of December 31, 2002.

It is recommended that Reinsurance Recoverables on Loss and Loss Adjustment Expenses received prior to claim payment be more appropriately classified on the annual statement as Remittances and Items Not Allocated to reflect the liability due to claimants.

Loss and Loss Adjustment Expense Reserves

The Office of the Commissioner of the Insurance retained an actuarial consultant to conduct an independent review of the Wisconsin American Mutual Insurance Company loss and loss adjustment expense reserves as of December 31, 2002. The independent actuary's reserve analysis results are summarized in the following tables.

Wisconsin American Mutual Insurance Company
Summary of Actuarial Consultants Loss & Loss Adjustment Expense Reserve Findings
(in $ 000's)
As of December 31, 2002

Reserve Type	OCI Actuary Estimated Reserves			Company Carried Reserves		
	Gross	**Ceded**	**Net**	**Gross**	**Ceded**	**Net**
Loss & DCC Expense	$8,222	$3,885	$4,337	$7,726	$3,482	$4,244
A & O Expense	407	100	307	2	0	2
Total Loss & LAE	$8,629	$3,985	$4,644	$7,728	$3,482	$4,246

Reserve Type	Difference Between OCI Actuary and Company			Percentage Difference		
	Gross	**Ceded**	**Net**	**Gross**	**Ceded**	**Net**
Loss & DCC Expense	$496	403	$ 93	6.4%		2.2%
A & O Expense	405	100	305	-		-
Total Loss & LAE	$901	$503	$398	11.7%		9.4%

In summary, the OCI independent actuary's report indicated that WAMIC's carried gross reserve of $7,728,000 was lower than the actuarial consultant's estimate by $901,000 or 11.7% of the carried reserve. WAMIC's carried net reserves of $4,246,000 were lower than the actuarial consultant's reserve estimate by approximately $398,000 or 9.4% of the carried reserve.

The majority of the difference between WAMIC's carried net reserve and the actuarial consultant's estimate relates to Adjusting and Other Loss Adjustment Expense of $305,000. Company follow-up indicated that its methodology of reserving for such adjusting expense has been primarily based on an IBNR/Bulk basis prior to 2003. The company also indicated that it has been subsequently working to develop individual case reserves on loss adjusting expenses. It is recommended that the company continue to review its loss and LAE reserve methodology and work with its actuary to develop effective adjusting and other expense reserving procedures, incorporating specific case reserves on individual files where warranted.

The remaining difference of $93,000 relates to Loss and Defense & Cost Containment (DCC) Expenses. A breakdown of the independent actuary's analysis of these Loss and DCC differences by major business lines is summarized in the following table.

OCI's Actuarial Analysis of Loss & DCC Expense By Business Line (in $ 000's)

Business Line	Actuary Estimate	Company Carried	Difference Amount	Difference Percent
Homeowners / Farmowners	$ 627	$ 484	$ 143	29.5%
Auto Liability	2,256	2,445	-189	-7.7%
Workers' Compensation	643	659	-16	-2.4%
Commercial Multiple Peril	559	468	91	19.4%
Auto Physical Damage	157	103	54	52.4%
Other	95	85	10	11.8%
Total Loss & DCC– All Lines	$4,337	$4,244	$ 93	2.2%

The company adjusted its loss reserves by $500,000 in June, 2003, based on similar CPA Audit Report findings and recommendations relating to loss reserve deficiencies. Accordingly, the current examination "Reconciliation of Surplus per Examination" section of this report reflects the following surplus adjustments pertaining to Loss and LAE Reserves:

- Loss Reserves
  Debit adjustment of $500,000 based on CPA recommendations offset by a credit adjustment of $407,000 to reflect the difference between the above CPA adjustment and the independent actuary's net estimated deficiency of $93,000
- Loss Adjustment Expense Reserves
  Debit adjustment of $305,000 to reflect the actuary's net estimated deficiency

No further loss reserve recommendations will be made, given that the company's combined loss and loss adjustment reserve adjustments posted in 2003 based on the CPA Audit Report recommendations were reasonably supported by the independent actuary's estimates during the current examination.

Loss / Claim Approval Controls

Claim payment control procedure documentation and review of a limited sample of claims indicated inconsistent evidence of compliance with recent company controls requiring president level approval of liability claims greater than $2,500 and property claims greater than $10,000. It is recommended that the company consistently document compliance with its claim approval procedures requiring management level claim approval based on claim type and amount.

Guaranty Fund Assessment

The CPA Audit Report recommended a surplus adjustment of $95,165 related to guaranty fund assessments. Examination review of guaranty fund assessments validated that, at year end 2002, guaranty fund assessment expenses were under accrued by the above amount due to the lack of timely review and update of estimated assessments from the Wisconsin Insurance Security Fund (WISF) board.

Accordingly, the "Reconciliation of Surplus per Examination" section of the current examination report reflects an adjustment decreasing surplus by $95,165 for the additional guaranty fund assessments. It is recommended that the company estimate guaranty fund assessments based on current WISF information.

Accrued Real Estate Held For Sale - Expenses

For 2004, WAMIC has committed to construction of a street that will provide access to its remaining business park parcels. These improvements are envisioned to increase real estate marketability, as well as satisfy development agreements entered into related to the sale of lots 20-22 to J. Herrick and Herrick Trust interests. These lot sales closed in early 2003, but were recorded in 2002 with this office's approval and within the context of SSAP No. 72, which allows capital contribution transactions contemplated prior to year-end and executed subsequently to be recorded as a prior year transaction. The company estimated expenses of $59,000 in 2003 to cover allocated costs related to lots 20-22. Allocation of the balance of the costs associated with remaining parcels is anticipated as they are incurred.

Given that the above land sales were allowed to be recorded in 2002, the company was able to realize a significant surplus benefit of $705,670 and the recording of any offsetting anticipated expense accruals under these related land development agreements would appear to be reasonable. Accordingly, the "Reconciliation of Surplus per Examination" section of the report reflects a surplus reduction of $59,000, based on company best estimates to cover allocated costs for street construction related to lots 20-22. It is recommended that accrued expenses be recognized for contractual commitments related to road construction anticipated in conjunction with remaining real estate property held for sale.

Salaries Payable

WAMIC reported accrued salaries of $13,400 as of December 31, 2002, representing wages payable for hourly employees for the last pay period in December 2002, which were paid on January 3, 2003.

No accrued salary for salaried employees was reported. The company has typically viewed that no accrual is necessary, since the salaried employees are paid their annual salary over 26 equal pay periods. Regardless, the salaried employees are paid on the same cycle as the hourly employees and hence due wages earned during 2002 of approximately $43,750, which were paid in January 2003.

Accordingly, the “Reconciliation of Surplus per Examination” section of the examination report reflects an adjustment decreasing surplus by the above salaried employee expense amount. It is recommended that the company record an estimated salary expense accrual for both hourly and salaried employee wages earned as of year-end, which will not be paid until the following year.

Employee Benefit Accruals

The CPA Report recommended surplus adjustments to reduce employee vacation and post retirement benefit accruals by $14,646 and $59,596, respectively. Examination review validated that the employee vacation expenses were over accrued due to subsequent company officer waivers of various vacation carryover benefits. Similarly, post retirement benefits were determined to be over accrued due to the president’s waiver of post retirement health insurance related benefits.

Accordingly, the “Reconciliation of Surplus per Examination” section of the current examination report reflects adjustments increasing surplus by $14,646 for employee vacation benefits and $59,596 for employee post retirement benefits. It is recommended that the company establish procedures to ensure reasonable employee vacation and post retirement benefit accruals are reported based on evaluation of current employee benefit status.

SDS Premium / Loss / Reinsurance System Controls

WAMIC has a perpetual license to use the Strategic Data Systems (SDS) policy and claims administration system. A number of premium, loss and reinsurance accounting system limitations and apparent recurring reconciling differences related to the use of this SDS system were noted during the course of the examination, which are summarized as follows.

- Premium
  Premium Written system reporting is restricted to company business line levels only; no reporting by individual policy exists. Deferred premium reporting is not supported. Examination balancing of various premium related accounts to the subsidiary system reporting controls noted reconciling differences for Agents' Balances ($84,325), Commissions Payable ($7,384) and Remittances & Items Not Allocated ($1,255). Company follow-up indicated that the system lumps renewals and endorsements in the same month into a "future billed" amount, which is a contributing factor to the above premium reporting issues.

- Loss
  Examination balancing of various loss related accounts to the subsidiary system reporting controls noted reconciling differences for Loss Reserves ($1,413) and LAE Reserves ($4,502). The company indicated that system deficiencies relating to the automatic assignment of reinsurance contracts when retention is exceeded are a contributing factor to loss reporting issues.

- Reinsurance
  Reinsurance recoverable recordkeeping primarily relies on manual worksheet preparation and analysis of reconciling items to supplement SDS system limitations. These procedures require manual posting of settlement records as received from the reinsurance broker for partial payments received from multiple (typically 3 or more) reinsurers. The above manual recordkeeping results in reinsurance recoverable and overpayment balances by claim, which require ongoing company follow-up for resolution.

  Reinsurance recoverable aging also primarily relies on manual review and evaluation for the payment status based on the above reinsurance worksheets. In that regard, reinsurance recoverable balances as of December 31, 2002, which would potentially be considered delinquent based on posting date, were offset against anticipated open recoverable offsets with limited audit trails evidenced.

The company's overall concern for controlling operating costs is understandable. At the same time, the above system limitations and reporting issues raise concerns from the standpoint of operating efficiency as well as company dependency and reliance on internal, non-standard system controls and audit trails. It is recommended that the company develop a plan to review SDS system reporting limitations and evaluate the cost/benefits of system upgrades or conversion to provide a more complete and effective audit trail in various premium, loss and reinsurance recordkeeping and control areas.

VIII. SUBSEQUENT EVENTS

Company responses to subsequent events issues and supporting company documentation review indicated the following post examination date contingent commitments or other accounting matters, which could potentially impact financial statement presentation and / or operations going forward.

National Cooperative Bank Surplus Note Covenant Default / Retirement

National Cooperative Bank contends that WAMIC has incurred an event of default relating to loan covenant violations of the “Surplus Contribution Note Agreement” between WAMIC and National Cooperative Bank dated December 17, 1997. The event of default relates to a minimum statutory surplus covenant, which requires the insurer to maintain a level of surplus in excess of that reported on its annual statement as of December 31, 1996. The surplus note agreement provides for a default rate of interest after the occurrence of any event of default.

WAMIC has responded to the National Cooperative Bank in regard to its concerns for maintaining minimum surplus requirements. The company’s Letter Agreement response dated July 18, 2003, indicates proposed plans to request the approval of OCI to retire the outstanding surplus note balance in the amount of $600,000, prior to the end of first quarter 2004.

National Cooperative Bank has acknowledged WAMIC’s proposed plan to payoff the surplus note and waive the covenant for the fiscal year ending 2002 in its Letter Agreement dated July 24, 2003. Addendum 1, which is incorporated as part of the National Cooperative Bank Letter Agreement, documents WAMIC’s belief that it is not in default relating to the minimum statutory surplus requirement, based on reduction of the original $1,000,000 surplus note balance by $300,000 as of December 31, 2002.

The impact of this surplus note payoff would significantly reduce the company’s surplus and cash position under a full repayment scenario. It also appears that WAMIC may incur additional interest or fees per the terms of the surplus note agreement should other conditions transpire involving less than full repayment of the note on a going forward basis.

AM Best Rating Downgrade

An AM Best rating downgrade from B- to C++, effective December 1, 2003, was noted during the course of the examination fieldwork. The rating downgrade reflects similar concerns noted during the course of the examination relating to marginal capitalization and company dependence on reinsurance.

The rating downgrade could potentially impact the ongoing viability of the company's reinsurance program under previously discussed contract options, which allow for reinsurer termination if AM Best ratings drop below B-. This concern is reduced by the fact that reinsurance contract drafts, effective January 1, 2004, were updated to reflect this rating change and allow a C++ rating.

CNA Reinsurance Dispute Settlement

WAMIC entered into an agreement with Continental Casualty (CNA) in January, 2003 related to a disputed reinsurance accounting issue concerning contingent commission calculations for the period July 1998 - December 1999. The terms of the "Agreement To Resolve Accounting Dispute" include a total WAMIC settlement payment of $589,479. The above settlement provides for partial payment offset against recoverable losses owed by CNA to WAMIC in the amount of $238,844. The balance of $350,635 is payable to CNA in monthly installments of approximately $23,375 from October 2003 through December 2004.

The Office of the Commissioner of Insurance approved a permitted practice providing for the amortization of the disputed payments in the amount of $49,123 over 12 months during 2003.

The current examination status review indicates that WAMIC has fully recorded the $589,479 total settlement in its financial statements. WAMIC has also granted a full release in regards to the related "Agreement to Guarantee" provided by J. Herrick. The company has submitted monthly payments to CNA of approximately $23,375 for October through December 2003 totaling $70,127.

The year-end 2003 financial impact of this settlement will result in a liability of $280,508, which will be paid in monthly installments of approximately $23,375 during 2004. The CNA “Agreement to Resolve Accounting Dispute” is expected to be fully satisfied as of December 31, 2004.

Land Sale Conversion to Land Contract

The company’s land sales of lot 20 to J. Herrick and lots 21-22 to the Herrick Trust interests, which were contemplated as part of a plan developed in December, 2002 to support financial targets, were recorded in late 2002 and closed in early 2003. OCI approved the recording of these land sales as a 2002 transaction within the context of SSAP No. 72.

Promissory notes were received from both J.Herrick and the Herrick Trusts. The company subsequently recorded the transactions by entries setting up notes receivable along with offsetting paid in surplus recognition of the gain of approximately $705,670.

The promissory notes were satisfied in 2003 through partial payment and conversion of the majority of the balance into land contracts payable in accordance with amortization schedules over a 10 year period.

From an ongoing financial reporting standpoint, the above notes receivable conversion to land contracts results in the realization of the majority of the paid in surplus adjustment of $705,670, which was recognized in 2002, over future years as opposed to immediate.

IX. CONCLUSION

Wisconsin American Mutual Insurance Company reported assets of $12,381,308, liabilities of $8,199,436 and surplus of $4,181,872 as of December 31, 2002. Overall financial performance trends since the prior examination reflected a 12% or $1.7 million decrease in assets, a 21% or $1.1 million decrease in surplus and a significant decrease in net income with a reported loss of approximately $1.5 million in 2002.

The company's financial performance since the prior examination reflects the company's departure from unprofitable personal business lines, rising claim loss experience, significant adverse reserve adjustment as a result of recommendations from actuarial and CPA consultants, reinsurance dispute settlement, and surplus note repayments.

The current examination reported net surplus adjustments decreasing the December 31, 2002 surplus by $674,136 to $3,507,736. The majority of the above surplus adjustments relate to loss and loss adjustment expense reserve deficiencies. The remaining adjustments were primarily attributed to inadequate accrual for various expenses. Subsequent examination events related to a potential surplus note covenant violation, AM Best rating downgrade and CNA reinsurance settlement will potentially impact ongoing results.

Going forward, WAMIC faces several significant challenges pivotal to improving financial operating performance, as follows:

- Premium written stabilization under a changing business strategy that is primarily emphasizing potentially higher risk commercial restaurant and tavern business along with reduction of unprofitable personal and workers' compensation lines
- Loss Reserve adequacy under an environment characterized by significant loss reserve development deficiencies and reserve adjustments in 2001 and 2002
- Surplus growth given current changes in business strategy along with various cash flow demands to meet potential surplus note repayment requirements to avoid covenant default, CNA reinsurance dispute settlement payments, and real estate improvement commitments
- Reinsurance program coverage continuance under contract terms that provide for termination options based on the company's AM Best rating and key man involvement in company activities
- Insurance industry performance rating improvements given recent AM Best rating downgrades and the potential cumulative impact of all the above areas

X. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 - Money Market Account Classification—It is recommended that the company classify and report money market funds under Schedule D – Part 2 – Section 2 Common Stock or Schedule DA – Part 1 Short-term investments, in accordance with the guidance of the NAIC Purposes and Procedures Manual of the Securities Valuation Office.

2. Page 26 - Real Estate Held for Sale - Appraisals—It is recommended that the company obtain appraisals on its real estate held for sale such that the appraisals are no more than five years old, in accordance with SSAP 40, paragraph 12 of the NAIC Accounting Practices and Procedures Manual.

3. Page 26 - Occupied Real Estate Properties - Capitalization—It is recommended that the company ensure, in the future, only expenses which add to or prolong property life are capitalized, in accordance with SSAP 40, paragraph 14 of the NAIC Accounting Practices and Procedures Manual.

4. Page 26 - Deferred Premiums—It is recommended that the company develop a system methodology for reporting deferred premiums pursuant to the NAIC Annual Statement Instructions Property and Casualty or request a permitted practice.

5. Page 27 - Reinsurance Contract Documentation—It is recommended that the company establish procedures to ensure that signed, executed copies of reinsurance treaties are obtained from all reinsurers in a timely manner, in accordance with SSAP 62, paragraph 23 of the NAIC Accounting Practices and Procedures Manual.

6. Page 28 - Reinsurance Contract Restrictions—It is recommended that the company make every effort to remove AM Best rating restriction termination provisions in subsequent contract renegotiations with its broker.

7. Page 28 - Reinsurance Recoverables - Classification—It is recommended that Reinsurance Recoverables on Loss and Loss Adjustment Expenses received prior to claim payment should be more appropriately classified on the annual statement as Remittances and Items Not Allocated to reflect the liability due to claimants.

8. Page 29 - Loss and Loss Adjustment Expense Reserves—It is recommended that the company continue to review its loss and LAE reserve methodology and work with its actuary to develop effective adjusting and other expense reserving procedures, incorporating specific case reserves on individual files where warranted.

9. Page 30 - Loss / Claim Approval Controls—It is recommended that the company consistently document compliance with its claim approval procedures requiring management level claim approval based on claim type and amount.

10. Page 31 - Guaranty Fund Assessment—It is recommended that the company estimate guaranty fund assessments based on current WISF information.

11. Page 31 - Accrued Real Estate Held For Sale - Expenses—It is recommended that accrued expenses be recognized for contractual commitments related to road construction anticipated in conjunction with remaining real estate property held for sale.

12. Page 32 - Salaries Payable—It is recommended that the company record an estimated salary expense accrual for both hourly and salaried employee wages earned as of year-end, which will not be paid until the following year.

13. Page 32 - Employee Benefit Accruals—It is recommended that the company establish procedures to ensure reasonable employee vacation and post retirement benefit accruals are reported based on evaluation of current employee benefit status.

14. Page 33 - SDS Premium / Loss / Reinsurance System Controls—It is recommended that the company develop a plan to review SDS system reporting limitations and evaluate the cost/benefits of system upgrades or conversion to provide a more complete and effective audit trail in various premium, loss and reinsurance recordkeeping and control areas.

XI. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
David Grinnell	Insurance Financial Examiner
Mark Knievel	Insurance Financial Examiner

Respectfully submitted,

Tom M. Janke
Examiner-in-Charge